

continued reliance on company-reported costs.⁴⁶ By encouraging firms to operate more efficiently, an objective benchmark for identifying high cost areas should help reduce both rates to consumers and the amount of high cost subsidies needed.⁴⁷

Determining the level of Federal universal service support directed towards high cost areas involves a balancing of several factors. One is the Act's requirement that rates in high cost areas be "reasonably comparable" to prices in urban areas.⁴⁸

^{46/} In NTIA's Reply Comments in the Commission's interconnection proceeding, we supported using forward-looking total service long run incremental cost (TSLRIC) as a starting point for setting reasonable prices for interconnection and unbundled network elements. Comments of NTIA in CC Docket No. 96-98, at 18-29 (filed May 30, 1996). A number of commenters have recommended that the Commission and the Joint Board define high cost areas using the so-called Benchmark Cost Model (BCM), which is purportedly based on TSLRIC and which was developed jointly by several local and long distance companies. See Comments of Sprint Corp. at 11-16; Comments of NYNEX at 10-13; Comments of US West at 8-9; Comments of MCI at 10-12; Comments of Association for Local Telecommunications Services at 12 (ALTS); Comments of LDDS Worldcom at 12; Comments of Florida at 9-11. But see Comments of Southwestern Bell Telephone Co. at 14-16; Comments of NCTA at 7-8; Comments of State of Maine Public Utilities Comm'n, et al. at 5-8 (expressing concerns about adoption of BCM, unmodified). Other parties have suggested alternative approaches. E.g., Comments of Pacific Telesis at 16-19; Comments of New York Department of Public Service at 5-7 (New York). NTIA believes that the Commission and the Joint Board should have considerable flexibility in choosing a proxy model for determining high cost areas, so long as that model is based primarily on forward-looking, as opposed to historical, costs.

^{47/} Although the Commission should specify the costing methodology to be employed, State commissions would be responsible for applying that approach to determine which areas are "high cost." NTIA believes that State commissions will have sufficient flexibility under this approach to prevent undue harm to any company or its customers.

^{48/} Act § 254(b)(3).

In NTIA's view, this suggests that the respective rates ought to reflect to some extent differences in the costs of providing service in those areas.⁴⁹ Among other things, that approach would be consistent with the Act's overarching goal of encouraging competition in all telecommunications service markets, which is another fundamental consideration. If rates in high cost areas are significantly below relevant costs, for example, it could deter entry by more efficient suppliers. In such cases, households in those areas would be denied the many benefits that competition can produce.⁵⁰

Furthermore, Federal high cost support should be carefully targeted to minimize the amount of subsidies needed, because their collection will reduce the economic welfare of carriers and users alike. This is a particular concern here, since high cost support is conferred on all households within a given area, without regard to need or ability to pay.⁵¹

^{49/} See, e.g., Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board, 96 FCC 2d 781, 795 (1984).

^{50/} This problem could be avoided if prospective entrants were eligible to receive the same high cost support as the incumbent LEC. We note, however, that the Act permits a State to designate a single ETC in rural areas. Act § 214(e)(2). The Act also authorizes States to exempt rural telephone companies from the Act's interconnection and unbundling requirements, which could make it much more difficult for a new entrant to offer the range of services or the geographic coverage needed to qualify as an ETC. Id. §251(f).

^{51/} In this regard, support for low-income households is obviously a more refined mechanism for advancing universal service goals. And, of course, low-income households in high cost areas would be eligible to receive additional Federal

NTIA recommends, on balance, that the Commission and the Joint Board provide high cost support to companies whose costs, as determined by some objective formula, exceed 130 percent of the national average.⁵² Eligible companies serving those areas would be entitled to receive, for each customer served, an amount from the Federal universal service fund equal to the difference between their actual costs of service (objectively determined) and 130 percent of the national average. Once again, States could create a separate intrastate high cost fund to provide additional support to high cost areas, or to mitigate local dislocations caused by changes in Federal high cost support.

C. Temporary Support Mechanisms May Be Needed To Prevent "Rate Shock" in Some Areas

As noted above, NTIA believes that the movement towards cost-based prices should generally not necessitate increases in basic telephone rates. We recognize, however, that the nation is in the midst of a transition between universal service policies

support through the modified Lifeline program.

^{52/} See Comments of MFS at 18. High cost support is currently provided to LECs whose costs are 115 percent above the national average. Notice ¶ 40. To avoid any potential dislocations, the Commission and the Joint Board could consider phasing this change over in over several years.

MFS also recommends that support should be denied to otherwise high cost areas in which the average household income is greater than 130 percent of the national average. Comments of MFS at 18. NTIA believes that this proposal is worthy of study to meet the Act's mandate for narrowly targeted support. This may be a way to avoid subsidizing subscribers in high income rural areas.

predicated on the monopoly provision of local telecommunications services and policies that are more compatible with a competitive market environment, without sacrificing universal service goals. The passage of the Act, and its implementation, will accelerate considerably that transition. As growing competition increases pressures on existing rate structures, and as regulators adopt new universal service policies that hew to congressional demand that support be specific and explicit,⁵³ there may be some potential for short-run rate increases for some residential consumers in some areas. We urge that regulators adopt mechanisms, as needed, to prevent any potential rate shock, which would be unfair to consumers, would undermine universal service goals, and might reduce support for robust competition in telecommunications markets.

Most importantly, any such increases should be implemented over a period of time, to ease burdens on consumers and to give competitive forces time to test whether those increases are truly warranted. Because most of the service components in the Federally defined universal service package are intrastate and subject to State jurisdiction, the Joint Board should recommend deferring to the States on rates for such components and how to phase out any resulting short-term price support needed in areas that otherwise might experience some rate shock. For that

53/ See, e.g., Joint Explanatory Statement, supra note 36, at 131.

reason, States should bear the primary responsibility for generating and disbursing the funds needed for any short-term price support.⁵⁴

IV. COLLECTION, DISTRIBUTION, AND ADMINISTRATION OF UNIVERSAL SERVICE SUPPORT FUNDS

The Act requires the Commission to establish "specific, predictable, and sufficient" subsidy mechanisms to support widespread availability and affordability of the Federally defined universal service package.⁵⁵ It also authorizes State commissions to adopt mechanisms to finance any additional universal service requirements that "do not rely on or burden Federal universal service support mechanisms."⁵⁶ As indicated in the Notice, establishment of such support mechanisms requires resolution, at least at the Federal level, of three fundamental questions: (1) how and from whom should universal service subsidies be collected; (2) how and to whom those subsidies

⁵⁴/ NTIA agrees with those parties that favor a measured elimination of the carrier common line charge (CCLC) as a means of recovering non-traffic sensitive costs (NTS) that have been assigned to the interstate jurisdiction. See, e.g., Comments of BellSouth Corp. at 11-12; Comments of AT&T at 4 n.5; Comments of New York at 4. The Commission should not assume, however, that removal of the CCLC necessitates a corresponding increase in the SLC. Before mandating such an increase, the Commission should ascertain that the NTS costs that would be recovered thereby represent the LEC's actual forward-looking costs of providing interstate access. Comments of New York at 4. The Federal universal service fund could provide monies needed to prevent harm to carriers and subscribers during the phase-out of the CCLC.

⁵⁵/ Act § 254(d).

⁵⁶/ Id. § 254(f).

should be distributed; and (3) who should perform those functions.⁵⁷

A. All Providers of Interstate Telecommunications Services Should Contribute to the Funding of Universal Service

Only carriers that provide interstate telecommunications service must contribute to the funding of universal service.⁵⁸ Many commenters believe that the Commission should require contribution from the broadest range of telecommunications service providers.⁵⁹ Limiting that obligation to a smaller group of carriers could spawn interminable controversies over the definition of a "carrier."

The 1996 Act alleviates these definitional problems by providing some specificity for the term, "telecommunications carrier,"⁶⁰ defined generally as an entity that provides "telecommunications for a fee directly to the public, or to such classes of users as to be effectively available directly to the

57/ Notice 99 118-131.

58/ Act § 254(d). Similarly, the Act requires all carriers providing "intrastate telecommunications services [to] contribute, on an equitable and nondiscriminatory basis, in a manner determined by the State" to the preservation of universal service in that State. Id. §254(f).

59/ See, e.g., Comments of Ameritech at 23; Comments of Pacific Telesis Group at 20-21; Comments of US West at 14-15; Comments of MCI at 15-16.

60/ The Act indicates that, in most cases, a telecommunications carrier shall be deemed as a common carrier to the extent that it furnishes telecommunications services. Act § 153(44).

public."⁶¹ There is, nevertheless, enough ambiguity in the phrase "directly to the public" for enterprising firms to contend they are not "carriers" and, thus, are not obligated to contribute to universal service funding. The Commission should therefore mandate that all firms providing interstate telecommunications services to third parties for a fee should contribute to the advancement and preservation of universal service.⁶²

61/ The Act defines the term "telecommunications carrier" to include most providers of telecommunications services. *Id.* § 153(44). The language quoted above is contained in the Act's definition of telecommunications service. *Id.* § 153(47).

62/ The Senate telecommunications reform bill, as introduced, contained language specifically excluding "information services" from the definition of "telecommunications service." S. 652, 104th Cong., 1st Sess. § 3(mm) (Mar. 30, 1995). The Committee Report on the bill indicates that the exclusion was intended "precisely to avoid imposing common carrier obligations on information service providers," such as the obligation to contribute to universal service. S. Rep. No. 104-23, 104th Cong., 1st Sess. 28 (1995). The exclusion was removed from the bill, however, before passage by the full Senate.

The House telecommunications bill also contained language explicitly removing information services from its definition of telecommunications service. H.R. 1555, 104th Cong., 2d Sess. § 501(a)(2) (1995). The House-Senate conference committee on the divergent bills adopted the modified Senate definition. One clear implication of these changes is that information service providers (ISPs) are not necessarily excluded from the category of entities that are obliged to contribute to the Federal universal service fund. Because the Commission has in the past exempted ISPs from contributing to the funding of universal service and because many issues would be raised by changing that decision now, NTIA believes that it would be inappropriate at this time to require ISPs to contribute to the new Federal universal service fund. As the universal service definition evolves and the structure of the industry changes, the Commission may wish to reexamine this matter in the future.

NTIA also concurs with the many commenters who argue that contributions should be generated by a percentage surcharge on the interstate revenues of all providers with an obligation to contribute.⁶³ A surcharge would be easier to implement than other approaches from the standpoint of both calculation and collection. Moreover, such an approach would not discriminate between carriers based on technologies and, if the Commission defines the universe of required contributors as broadly as suggested above, it would be competitively neutral as well. To avoid "double-counting" of certain revenues, however, contributions should be based on a firm's retail revenues, less payments for telecommunications services received from other

63/ E.g., Comments of US West at 16-18; Comments of AT&T at 7-9; Comments on MFS at 16; Comments of Indiana Regulatory Commission at 5. NTIA believes that it may be appropriate to apply the chosen surcharge to all of an interstate service provider's revenues, whether interstate, intrastate, or international, although the Act is unclear on this point. It plainly does not bar the Commission from reaching all of an interstate carrier's revenues, however, in view of the long-standing bifurcation of regulatory jurisdiction over intrastate and interstate services, if the Commission considers basing contributions to the Federal universal service fund on both types of revenues, it should consult closely with State regulatory commissions before acting.

NTIA recognizes that States could encounter problems if, in return for preserving their jurisdiction over intrastate services, they assume a larger share of the responsibility for funding universal service support. If, for example, two neighboring States adopt substantially different contribution requirements to promote their universal service goals, service providers may migrate towards the State with the lower requirement. That may, in turn, undermine the other State's economic development objectives.

companies who also pay monies into the Federal universal service fund.⁶⁴

B. Subsidies Should Be Distributed in a Way That Promotes Competition Among Telecommunications Service Providers

The Act specifies that only ETCs may receive support payments from the Federally created universal service fund.⁶⁵ This requirement must be implemented carefully so as not to impede the growth of local competition. As the Commission is aware, "[a]ssistance programs that provide subsidies to incumbent service providers while denying assistance to new entrants may impede the development of competition."⁶⁶ Put another way, if subsidies are limited to a small number of providers in an area, that may deter entry from lower cost, more efficient competitors unless the entrants' costs are below the subsidized price.

64/ See Comments of MCI at 15-16; Comments of NCTA at 24-25. Thus, before calculating its required contribution, an interstate telecommunications reseller would reduce its retail revenues by an amount equal to the payments made to secure its underlying facilities.

65/ Act § 254(e). If States adopt universal service requirements in excess of the Federally defined basic universal service package and develop independent support mechanisms to fund those additional requirements, they may distribute those subsidies in any fashion and to any entity they choose. Id. § 254(f).

66/ Universal Service Task Force, Federal Communications Commission, Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms 30 (Feb. 23, 1996). See also Comments of MCI at 8-9.

To further the Act's overarching objective of promoting local service competition (which, as noted above, will advance universal service goals), the Commission and the States should interpret the Act to maximize the number of firms that can qualify as ETCs and, therefore, become eligible to receive universal service support.⁶⁷ This would require action in two principal areas: First, the Act appears to require ETCs to offer all of the services in the Federally defined basic universal service package.⁶⁸ This counsels in favor of a package like that proposed in the Notice and supported by virtually all commenters, with measured expansion in the future as new services and functionalities become necessary to give households full and fair access to the Information Superhighway. That approach would afford new entrants a fair opportunity to provide qualifying services, yet give residential subscribers a flexible, fully functional pipeline to the Information Superhighway.

Second, ETCs must also provide those services throughout a "service area" designated by the Commission, in the case of rural

^{67/} In unserved areas, NTIA agrees with commenters who argue that an ETC should be selected via competitive bidding among prospective applicants. See Comments of MCI at 18-19. See also Comments of GTE Service Corp. at 8-12. Indeed, we are intrigued by the notion of using auctions to select ETCs even in currently-served areas. Competitive bidding could provide a more accurate measure of the costs of serving a particular area than even a proxy cost model.

^{68/} Act § 214(e)(1)(A).

localities, and State commissions in other instances.⁶⁹ The Commission currently defines a carrier's service area to include "all the territory within a single state within which that carrier operates."⁷⁰ Requiring an entrant to serve immediately the same area as the incumbent in order to qualify for subsidies needed to place the new firm on an equal competitive footing with its subsidized rival may erect a barrier that many entrants cannot overcome. Consequently, the designation of smaller service areas would make more sense. Among other things, smaller areas would help demarcate true high cost areas and separate them from areas that should not receive high-cost support. Regulators could consider a number of possible alternatives (e.g., counties, wire center boundaries, or census blocks) but, in any event, service areas should not be coextensive with either State boundaries or territories served by incumbent carriers.

Once regulators determine which providers should qualify as ETCs, those entities should receive support monies based on the number of subscribers served. The model would be the Commission's Lifeline program, under which carriers provide service to eligible low-income households at a discounted rate, then recover that discount by drawing money from the universal service fund. Under this approach, for example, ETCs serving a high cost area would provide service to residential subscribers

^{69/} Id. §§ 214(e)(1)(A), (e)(5).

^{70/} Notice ¶ 45.

at the nationwide average rate for the Federally defined basic service package. The ETCs would then recover from the new universal service fund, for each subscriber served, an amount equal to the difference between the nationwide rate and the benchmark cost for serving that area. Allowing subsidies to "follow the customer" in this fashion would promote head-to-head competition among ETCs, encourage additional carriers to request ETC status, and better ensure that support funds are used to serve universal service customers and not to subsidize an ETC's other service offerings.⁷¹

C. Administration of the Universal Service Fund

The Notice also solicits comment on how the universal service fund should be administered.⁷² Under one approach, "individual State commissions or groups of State commissions would be responsible for administering the fund's collection and distribution, operating under plans approved by the Commission."⁷³ Similarly, some commenters suggest that the Commission disburse "block grants" to State commissions for redistribution by them to ETCs within their jurisdictions.⁷⁴ NTIA believes that entrusting the fund to more than one

^{71/} See Act § 254(k); Notice ¶ 41. See also Comments of AT&T at 9-10.

^{72/} Notice ¶¶ 127-131.

^{73/} Id. ¶ 130.

^{74/} See, e.g., Comments of MCI at 12.

administrator would be complicated and cumbersome and would likely increase administrative costs.

NTIA's preferred approach would be to designate a single independent administrator, much as the National Exchange Carrier Association (NECA) handles collection and distribution of Federal universal service support today. NTIA recommends that the administrator should be selected via competitive bidding among the group of qualified applicants.⁷⁵ NECA could be a contestant in that auction, so long as it makes changes in its membership to insure its neutrality and independence.⁷⁶

V. CONNECTING SCHOOLS, LIBRARIES, AND HEALTH CARE PROVIDERS

A. Special Services for Schools, Libraries, and Hospitals

Passage of the Act ensures for the first time the inclusion of schools, libraries, and health care providers as a focus of universal service policy.⁷⁷ Similarly, the Administration has made connecting schools and libraries to the National Information Infrastructure (NII) one of its higher priorities. President Clinton and Vice President Gore have forcefully advanced two

^{75/} See, e.g., Comments of Frontier Corp. at 9-10; Comments of ALTS at 18-19.

^{76/} See Comments of Idaho Public Utilities Commission at 17-18.

^{77/} Act § 254(b)(6). Section 254(b)(6) of the Act establishes as one of the principles necessary for the preservation and advancement of universal service that "[e]lementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services" Id.

imperatives: (1) our children must have access to the world through information systems and (2) our children must become computer literate so that they can compete and succeed in the working world of the next century. For these and other economic and social reasons, both President Clinton and Vice President Gore have encouraged the formation of public-private partnerships to accomplish one specific purpose: to connect every classroom, library, hospital, and clinic to the NII by the year 2000.⁷⁸

In addition to the nationally defined universal service package, the Joint Board may recommend that the Commission adopt so-called "special services" for public and nonprofit schools, libraries, and health care providers. Special services consist of those services that the Commission determines "are essential to education, public health, or public safety."⁷⁹

B. The Pricing of "Special Services"

Senators Snowe (R. ME), Rockefeller (D. W.VA), Exon (D. NE), and Kerrey (D. NE) co-sponsored an amendment to the Act that extends to schools and libraries discounts on the rates they are

^{78/} See, e.g., President William J. Clinton, State of the Union Address, (1994, 1996); Vice President Albert Gore, Jr., Remarks before the Academy of Television Arts and Sciences in Los Angeles, CA (Jan. 11, 1994). In addition, the Administration, through its recently announced "Technology Literacy Challenge" and NTIA's Telecommunications and Information Infrastructure Assistance Program (TIIAP), seeks to supplement the connection campaign by addressing remaining needs, including financing hardware, software, training, and other technical assistance.

^{79/} Act § 254(c)(1)(A).

charged by telecommunications carriers for the provision of special services.⁸² This amendment provides an important mechanism that will facilitate accomplishment of the Administration's ambitious vision to achieve universal connection of these public institutions by the turn of the century.⁸¹ As passed, the Snowe-Rockefeller amendment contemplates offering discounts for interconnecting school classrooms and libraries to the NII, not for other services such as obtaining and deploying hardware, software, training, and technical support.⁸³

Providing universal service support for schools, libraries, and health care providers is novel for this country. America has never before attempted to define special services,⁸² to set national standards for enhancing access to advanced

80/ See id. § 254(h)(1)(B).

81/ The Act requires telecommunications carriers to provide special services for schools and libraries "at rates less than the amounts charged for similar services to other parties." Id. Although the Act also requires telecommunications carriers to offer "special services" to rural health care providers, the Act does not similarly require discounts for such services. It mandates, instead, that rates charged to rural health care providers must be "reasonably comparable to rates charged for similar services in urban areas in that State." Id. § 254(h)(1)(A).

82/ The provision relating to special services for health care providers includes instruction on how to use such services. See id. § 254(h)(1)(A).

83/ See id. § 254(c)(3) (permits Commission to designate additional services for qualifying schools, libraries, and health care providers that are eligible for universal service support).

telecommunications services to those institutions,⁸⁴ or to define the circumstances under which carriers may be required to connect those institutions to their networks.⁸⁵ These tasks could be facilitated by compiling evaluations of potential costs, possible pitfalls, and educators' best views on curriculum requirements so that the ultimate decisions by the Commission and its state counterparts have a sound policy basis.

In the attached exhibit, NTIA has -- as a starting point for discussion -- based on existing studies and experience gained from NTIA's Telecommunications and Information Infrastructure Assistance Program (TIIAP), attempted to develop approximations of the costs involved in connecting schools and libraries to the NII.⁸⁶ Based on this analysis, it appears that the implementation of a preferential rate scheme would, overall, represent a relatively modest proportion of the total costs of bringing schools and libraries into the Information Age. For

84/ See *id.* § 254(h)(2)(A) (requires Commission to establish competitively neutral rules to enhance access to advanced telecommunications and information services for qualifying schools, libraries, and health care providers).

85/ See *id.* § 254(h)(2)(B) (requires Commission to establish competitively neutral rules to define circumstances pursuant to which carrier may be required to connect its network to qualifying schools, libraries, and health care providers).

86/ See attached Exhibit, Estimated Cost Profiles for Connecting Schools and Libraries to Advanced Networks (June 1996). The absence of data from NTIA regarding the costs involved in connecting health care providers to the NII should not suggest that NTIA is not equally concerned about health care-provider connection issues.

example, NTIA's study suggests that the connections costs for which discounts would apply may range from \$800 million to \$1.5 billion.

NTIA urges the Joint Board and the Commission to bear in mind that the equitable allocation of resources has great urgency for schools and libraries. The disparities in educational opportunities available to students in well-funded educational districts compared to those in poorer districts have been adequately documented.⁸⁷ Access to information systems could mitigate the effects of these disparities. In considering the discounts that will be offered, the Commission and the Joint Board should give particular attention to the discounts' impact on schools and libraries located in poorer districts. Because of funding shortfalls in poorer districts, educational institutions located there may not be able to afford access to advanced services -- even with the help of discounts. Accordingly, the proposal suggested by the American Library Association (ALA) and the National School Boards Association, et. al. (NASB) of a two-tiered discount scheme appears promising and deserving of close study.

87/ See, e.g., B. Means and K. Olson, Restructuring Schools With Technology: Challenges and Strategies (Menlo Park, CA: SRI International, Nov. 1995). Additional discounts might be considered for higher cost as well as lower-income districts. See Comments of ALA at 5, App. B; Comments of NSBA et al. at 23.

VI. CONCLUSION

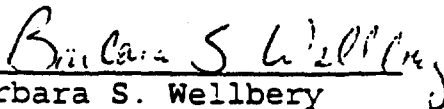
For the foregoing reasons, NTIA respectfully requests that the Commission adopt the recommendations contained herein.

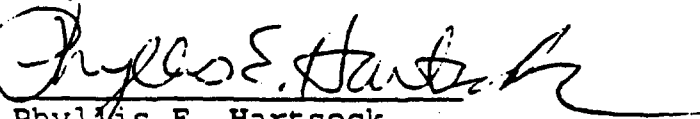
Respectfully submitted,

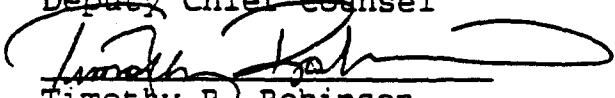
Larry Irving
Assistant Secretary for
Communications & Information

Shirl Kinney
Deputy Assistant Secretary

Kathryn C. Brown
Associate Administrator
Jim McConnaughey
Tim Sloan
Office of Policy Analysis
and Development


Barbara S. Wellbery
Chief Counsel


Phyllis E. Hartsock
Deputy Chief Counsel


Timothy R. Robinson
Attorney

National Telecommunications
and Information Administration

U.S. Department of Commerce
Room 4713
14th Street and Constitution Ave., N.W.
Washington, D.C. 20230
(202) 482-1816

June 12, 1996

Certificate of Service

I, Cheryl Kinsey, do hereby certify that I have this 12th day of June, 1996, delivered copies of the foregoing Reply comments, via hand delivery (*) or by United States mail, postage prepaid, to the following:

* Chairman Reed Hundt
Federal Communications Commission
1919 M Street, NW
Room 814
Washington, DC 20554

* Commissioner Susan Ness
Federal Communications Commission
1919 M Street, NW
Room 832
Washington, DC 20554

* Commissioner James Quello
Federal Communications Commission
1919 M Street, NW
Room 802
Washington, DC 20554

* Commissioner Rachelle Chong
Federal Communications Commission
1919 M Street, NW
Room 844
Washington, DC 20554

* Mr. William F. Canton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

James R. Forcier
AirTouch Communications, Inc.
One California Street, 9th Floor
San Francisco, CA 94111

Emily M. Williams
Association for Local
Telecommunications Services
1200 19th Street, N.W.
Washington, D.C. 20036

Lawrence W. Katz
The Bell Atlantic Telephone Companies
1320 North Court House Road
Eighth Floor
Arlington, VA 22201

Genevieve Morelli
Vice President and General Counsel
The Competitive Telecommunications
Association
140 Connecticut Ave. N.W. Suite 220
Washington, D.C. 20036

Richard W. Riley
U.S. Secretary of Education
Department of Education
600 Independence Ave. S.W.
Washington, D.C. 20202

Cynthia B. Miller
Senior Attorney
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL. 32399

Allen P. Stayman
Director,
Office of Insular Affairs
U.S. Department of Interior
1849 C Street N.W.
Washington, D.C. 20240

Michael J. Ettner
Senior Assistant General Counsel
Personal Property Division
General Services Administration
18th & F Streets, N.W., Rm. 4002
Washington, D.C. 20405

Richard McKenna, HQE03J36
GTE Service Corporation
P.O. Box 152092
Irving, TX 75015 - 2092

Dena S. Puskin, Sc.D.
Deputy Director
Office of Rural Health Policy
5600 Fishers Lane, Room 9-05
Rockville, MD 20857

Donald L. Howell, II
Deputy Attorney General
Idaho Public Utilities Commission
472 West Washington St.
Boise, ID 83720 - 0074

Robert C. Glazier
Director of Utilities
Indiana Utility Regulatory Commission
Indiana Government Center South
302 West Washington, Suite E306
Indianapolis, IN 46204

Matthew C. Ames
Miller, Canfield, Paddock and Stone,
P.L.C.
1225 Nineteenth Street, N.W.
Suite 400
Washington, D.C. 20036 - 2420

Paul Rodgers
Charles D. Gray
National Association of Regulatory
Utility Commissioners
1201 Constitution Avenue
Suite 1102
Washington, D.C. 20044

Robert F. Manifold
Assistant Attorney General
Public Counsel Section
Office of Attorney General
900 4th Avenue, Suite 2000
Seattle, WA 98164

Robert R. Katz
Peter F. Harter
Netscape Communications Corp.
487 East Middlefield Road
Mountain View, CA 94043

James A. Nappi, Esq.
Secretary
State of New Jersey
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

Illona A. Jeffcoat-Sacco, Director
Public Utilities Division
Public Service Commission
State of North Dakota
State Capitol
600 E. Boulevard
Bismark, ND 58505

Gigi B. Sohn
Media Access Project
2000 M Street, N.W.
Washington, D.C. 20036

Jill A. Lesser
People for the American Way
2000 M Street, N.W.
Washington, D.C. 20036

David Cosson
L. Marie Guillory
Steve Watkins
NTCA
2626 Pennsylvania Avenue, N.W.
Washington, D.C. 20037

Lisa M. Zaina
Ken Johnson
OPASTCO
21 Dupont Circle, N.W.
Suite 700
Washington, D.C. 20036

Jot D. Carpenter, Jr.
Vice President, Government Relations
Telecommunications Industry Assn.
1201 Pennsylvania Ave. NW, Suite 315
Washington, D.C. 20044

Jay C. Keithley
Leon M. Kestenbaum
H. Richard Juhnke
Sprint Corporation
1850 M Street, N.W.
Suite 1100
Washington, D.C. 20036

David W. Zesiger, Esq.
Office of Advocacy
U.S. Small Business Admin.
409 Third Street, S.W.
Suite 7800
Washington, D.C. 20416

Joseph Di Bella
NYNEX
1300 I Street, N.W.,
Suite 400 West
Washington, D.C. 20005

Michael J. Karson
Ameritech
Room 4H88
2000 West Ameritech Center Drive
Hoffman Estates, IL 60196 - 1025

Maureen O. Helmer
General Counsel
New York State Department
of Public Service
Three Empire State Plaza
Albany, NY 12223

M. Robert Sutherland
Richard M. Sbaratta
Rebecca M. Lough
Bellsouth Corporation
Suite 1700
1155 Peachtree Street, N.E.
Atlanta, GA 30309 - 3610

Judy Sello
AT&T Corporation
Room 3244J1
295 North Maple Avenue
Basking Ridge, NJ 07920

Chris Frentrup
Senior Regulatory Analyst
MCI Communications Corporation
1801 Pennsylvania Avenue, NW
Washington, D.C. 20006

Neal M. Goldberg
The National Cable Television
Association, Inc.
1724 Massachusetts Avenue, NW
Washington, D.C. 20036

Linda Kent
United States Telephone Association
1401 H Street, NW
Suite 600
Washington, D.C. 20005

J. Manning Lee
Vice President, Regulatory Affairs
Teleport Communications Group Inc.
Two Teleport Drive, Suite 300
Staten Island, NY 10311

Jeffrey Stewart
Public Service Commission
of the District of Columbia
Suite 815
450 5th Street, N.W.
Washington, D.C. 20001

Andrew D. Lipman
Mark Sievers
SWIDLER & BERLIN, CHARTERED
3000 K Street, N.W., Suite 300
Washington, D.C. 20007

Wayne A. Leighton, Ph.D
James L. Gattuso
Citizens for a Sound Economy
Foundation
1250 H Street, NW, Suite 700
Washington, DC 20005

James L. Gattuso
Signature

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Date

EXHIBIT

ESTIMATED COST PROFILES FOR CONNECTING SCHOOLS AND LIBRARIES TO ADVANCED NETWORKS

I. Introduction

Based on a review of some available studies and data from several grants awarded under NTIA's Telecommunications and Information Infrastructure Assistance Program (TIIAP),¹ this exhibit presents estimated cost profiles for connecting schools and libraries to the National Information Infrastructure (NII). The connection needed to link schools and libraries to the NII -- which is subject to the universal service discount under the Snowe-Rockefeller amendment to the 1996 Telecommunications Act (Act)² -- represents only a part of the expenditure that will be incurred by any school or library seeking to use services offered over the NII. The preferential rate scheme under the Act will cover some or all of these connection costs for schools and libraries. Because most available data includes costs beyond those for connection, we have attempted to use broader cost data encompassing other aspects as well (e.g., obtaining and deploying hardware, software, training, and technical support) to put connection costs in context.

There is a great need to explore the potential costs of hooking up the schools and libraries, despite the difficulty of providing precise estimates at this time. Accordingly, we have relied on some data that is now available in order to commence a dialogue on this issue. As explained below, variations in the networks and needs of the schools or libraries could affect the connection costs. For that reason, we present a number of different scenarios to illustrate the possible range of costs.

For example, the total cost of providing access to the NII for schools and libraries depends on those entities' specific requirements with respect to

¹/ TIIAP refers to the Telecommunications and Information Infrastructure Assistance Program, which provides matching grants to non-profit organizations for the purpose of improving the quality of, and the public's access to, education, health care, government services, and economic development. Since 1994, TIIAP has awarded 209 grants in 47 states, the District of Columbia, and several territories.

²/ See Telecommunications Act of 1996, Pub. L. No. 104-104, § 254(h)(B)(1), 110 Stat. 56 (1996). This analysis excludes rural health care providers, which are assured by the Act of receiving telecommunications rates that are "reasonably comparable" to urban counterparts also located in their states.

investment in capital and human resources, as well as recurring expenses (such as subscription to telecommunications or information services). Technology choices can also significantly affect the magnitude of the outlays: a T-1 connection will cost more than a regular voice-grade line but will also deliver higher-speed transmission (1.5 Mbps versus 34 Kbps or slower). Full-motion video may necessitate an even faster, broader, and more expensive 45 Mbps DS3 link. Decisions as to the number of instructional rooms connected and student-to-computer ratios will also have an impact on connection costs. These various outlays will include both initial deployment, or "up-front," costs and those that will be ongoing. Moreover, development of alternatives for connecting the schools and libraries -- such as the potential for wireless connections -- may also change the cost landscape.

Decisions on other factors will also affect overall costs. The cost of hardware will vary widely depending on the specific system selected. For example, a Macintosh computer costs more than an Apple II personal computer (PC), a Pentium microprocessor costs more than a 386, and a laser printer costs more than an inkjet or dot matrix printer. Educational software will be needed, as well as training and technical support. Furthermore, the level of overall expenditures will be a function of the deployment schedule: a five-year roll-out would be much more expensive than a 20-year timetable.³ Due to the myriad choices confronting school administrators about Information Age capabilities and budget allocations, any cost profile must be developed on the basis of different options. Accordingly, the cost profiles presented are only broad estimates that provide a starting point for further discussion of the most expedient means to bring the Information Age to schools and libraries.

The following analysis begins with an examination in Section II of recent studies on the total costs of achieving and maintaining access to the NII for the nation's public schools and libraries. Information about the connection component

3/ For example, using model projections, a 1995 study by the University of Florida's Telecommunications Industries Analysis Project concluded that total costs for a 20-year broadband deployment program would range from \$14.7 billion for connecting only teachers to \$118.3 billion for hooking up all students and teachers in public schools. If a five-year accelerated deployment schedule were pursued, then the range would be \$28.6 billion to \$204.4 billion. See Carol Weinhaus et al., Schools in Cyberspace: The Cost of Providing Broadband Services to Public Schools, Executive Summary 5-6 (July 1, 1995) (Presentation at the July 1995 NARUC Meeting, San Francisco, CA). The Project's study focused on hardware, software, training, wiring, and Internet access costs incurred by schools or LECs. Tariffed rates for telephone services or enhanced broadband services were excluded, as were ongoing expenses for maintenance and operations. Id. at 21.